

TESCO PLC: HALF YEAR AND FULL YEAR 2014/15 PERFORMANCE PRO-FORMA

As communicated at our Preliminary Results on 22 April 2015, we are moving to operating profit as our headline performance measure, adjusted only for any large and distorting impacts. In addition to these adjustments, we will also remove the impact of the IAS 19 pension finance cost* when reporting the performance of profit before tax.

To help investors and analysts model these new measures, we have provided below a reconciliation between trading profit for 2014/15 as previously reported and our new headline operating profit measure for the same period (Table 1). We have also provided a breakdown of this new measure by operating segment (Table 2). The segments applied ('UK & ROI', 'International' and 'Tesco Bank') are as communicated in our first quarter trading statement, and are aligned to the way we now operate the business and report performance internally.

Finally, we have provided a reconciliation between statutory operating profit and our headline performance measures as detailed above (Table 3). We will provide a similar reconciliation as part of our interim and preliminary results announcements going forward.

In addition to providing the reconciliation mentioned above, Table 1 also includes an additional line item reflecting a first half impact associated with the updated commercial income adjustment recognised within our full year results. This impact, which relates to in-year phasing of Irish performance, has the effect of increasing 1H 2014/15 trading profit by £42m, but has no impact on either full year or statutory numbers.

All information is presented on a continuing operations basis.

Table 1. Reconciliation of trading profit to operating profit before one-off items

	1H 2014/15 £m	FY 2014/15 £m
Trading profit as previously reported	937	1,390
Revised phasing of 2014/15 commercial income adjustment	42	-
<i>Adjustments:</i>		
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	(56)	(68)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	(6)	(19)
IFRS 3 'Business Combinations' – intangible asset amortisation charges & costs arising from acq'ns	(8)	(13)
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	-	-
Other (losses)/profits arising on property-related items	7	(60)
Operating profit before one-off items	916	1,230

Table 2. Segmental reporting

26 weeks ended 23 August 2014 At actual exchange rates**	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Revenue	22,052	7,900	521	30,473
Operating profit before one-off items	550	267	99	916
Operating margin***	2.5%	3.4%	19.0%	3.0%
53 weeks ended 28 February 2015 At actual exchange rates**	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Revenue	44,985	16,275	1,024	62,284
Operating profit before one-off items	507	535	188	1,230
Operating margin***	1.1%	3.3%	18.4%	2.0%

* The IAS 19 pension finance cost could be distortive to our headline measure as it is impacted by corporate bond yields which can fluctuate significantly over time.

** Actual exchange rates are the average actual periodic exchange rates for that financial year.

*** Operating margin is based on operating profit before one-off items and on revenue including fuel.

Table 3. Reconciliation between statutory operating (loss)/profit and headline performance measures

	1H 2014/15 £m	FY 2014/15 £m
Statutory operating (loss)/profit	347	(5,792)
Add back: One-off items	569	7,022
Operating profit before one-off items	916	1,230
Share of post-tax (losses)/profits of joint ventures and associates	19	(13)
Finance income	47	90
Finance costs	(301)	(661)
Add back: IAS 19 pension finance cost*	71	136
Profit before tax before one-off items adjusted for IAS 19 pension finance cost	752	782
Taxation	(37)	657
Add back: Impact on taxation of one-off items and IAS 19 pension finance cost	(115)	(795)
Profit after tax before one-off items adjusted for IAS 19 pension finance cost	600	644
Diluted earnings per share before one-off items adjusted for IAS 19 pension finance cost	7.39p	7.97p
	1H 2014/15 £m	FY 2014/15 £m
One-off items included above:		
Impairment of PPE and onerous lease provisions	136	4,727
Impairment of investments in and loans to joint ventures and associates	-	712
Impairment of goodwill and intangible fixed assets	-	166
Inventory valuations and provisions	63	570
Restructuring costs including trading store redundancies	-	416
Provision for customer redress	27	27
Other restructuring and one-off items	156	196
Reversal of commercial income recognised in previous years	187	208
	569	7,022

Contacts:

Investors: Chris Griffith 01992 644 800
Media: Tom Hoskin 01992 644 645